

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Ann Arbor Transportation Authority	County Washtenaw
Fiscal Year End September 30, 2006	Opinion Date December 11, 2006	Date Audit Report Submitted to State March 26, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

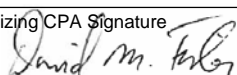
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe) Single Audit	<input checked="" type="checkbox"/>			
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 517-787-6503		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49203
Authorizing CPA Signature 		Printed Name David M. Fisher, CPA		License Number 10337



Ann Arbor Transportation Authority

*Financial Statements as of and for the
Years Ended September 30, 2006 and 2005 and
Additional Information for the Year Ended
September 30, 2006, Independent Auditors' Reports
Required by the Office of Management and Budget
Circular A-133 and Supplemental Schedule of
Expenditures of Federal Awards for the
Year Ended September 30, 2006, and
Independent Auditors' Reports*

ANN ARBOR TRANSPORTATION AUTHORITY

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



INDEPENDENT AUDITORS' REPORT

December 11, 2006

To the Members of the Board of Directors of
Ann Arbor Transportation Authority
Ann Arbor, Michigan

We have audited the accompanying basic financial statements of Ann Arbor Transportation Authority (the "Authority") as of and for the years ended September 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ann Arbor Transportation Authority as of September 30, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reported dated December 11, 2006 on our consideration of Ann Arbor Transportation Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the Governmental Accounting Standards Board Statement #45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" Supplementary Information are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information contained in the Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Ann Arbor Transportation Authority. Such information has been subjected to the auditing procedures applied in the audit of the 2006 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2006 basic financial statements taken as a whole.

ANN ARBOR TRANSPORTATION AUTHORITY

MANAGEMENT DISCUSSION AND ANALYSIS YEARS ENDED SEPTEMBER 30, 2006 and 2005

As management of the Ann Arbor Transportation Authority (the “Authority”) in Ann Arbor, Michigan, we offer readers of the Authority’s financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2006. We encourage readers to consider the information in conjunction with the financial statements, related footnote disclosures and the required supplementary and additional information as listed in the table of contents.

Overview of the Financial Statements and Financial Analysis

The discussion is intended to present an overview of the Authority’s financial performance for the years ended September 30, 2006 and 2005 and does not purport to make any statement regarding the future operations of the organization. While the Authority is an instrumentality of the State of Michigan, it is not a component of the State as defined by the Governmental Accounting Standards Board (GASB).

The annual report consists of the basic financial statements, which are the balance sheet, statement of revenues, expenses and changes in net assets, and the statement of cash flows, prepared in accordance with GASB principles. This report also contains other supplementary information in addition to the basic financial statements, as required by the GASB and the State of Michigan Department of Treasury.

Effective with the year ended September 30, 2003, the Authority adopted GASB Statement No. 34, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments* and Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Government: Omnibus*, and Statement No. 38, *Certain Financial Statement Note Disclosures*. The basic financial statements for the year ended September 30, 2005 have been audited and are included herein for comparative purposes.

Financial Highlights

The Authority’s total assets decreased from the prior year by \$1,694,000 (4.0%), primarily due to a decrease in net capital assets as depreciation expense was greater than capital assets purchased during the year.

Cash and investments increased by \$2,442,000 (17.4%) due to the timing of the receipt of payments from the July 1, 2006 local property tax levy from the City of Ann Arbor. This is offset by the \$2,415,000 decrease in other receivables.

Total net assets decreased by \$1,835,000, primarily because net assets - investment in capital assets decreased as depreciation expense was greater than capital contributions for the purchase of new capital assets. Unrestricted net assets increased by \$241,000

Current liabilities decreased by \$582,000 (6.0%) due to the reduction of grants payable from the overpayment in the prior years’ State of Michigan Formula Operating Assistance.

Total expenses increased \$1,824,000 (7.7%) primarily due to the increase in fuel and lubricants and purchased transportation, as well as the increased expenses in 2006 of approximately \$849,000 in post-employment benefit costs over the prior year, as explained further below. Fuel and lubricants increased \$565,000 from prior year due to the higher price per gallon for ultra-low sulfur diesel fuel.

Balance Sheets

The balance sheets include all assets and liabilities. It is prepared under the “full accrual” basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when they occur, regardless of the timing of the related cash flows. Assets and liabilities are measured using the economic resources measurement focus. Capital assets are reported at historical cost less an allowance for depreciation.

A summary of the Authority’s assets, liabilities and net assets at September 30, 2006 and 2005 follows (in thousands):

	2006	2005
Assets:		
Current assets	\$19,218	\$18,840
Capital assets, net	<u>21,778</u>	<u>23,854</u>
Total assets	<u>\$40,996</u>	<u>\$42,694</u>
Liabilities:		
Current liabilities	\$ 9,043	\$ 9,754
Noncurrent liabilities	<u>849</u>	<u> </u>
Total liabilities	9,892	9,754
Net Assets:		
Invested in capital assets	21,778	23,854
Unrestricted	<u>9,326</u>	<u>9,085</u>
Total net assets	<u>31,104</u>	<u>32,939</u>
Total liabilities and net assets	<u>\$40,996</u>	<u>\$42,694</u>

At September 30, 2006, the Authority’s total assets were \$41.00 million, compared to \$42.69 million at September 30 2005. The Authority’s largest capital investments include buses and related equipment, net of depreciation, of \$9.5 million in 2006 and \$11.5 million in 2005 and the land and buildings, net of depreciation, of \$10.6 million in 2006 and \$11.3 million in 2005.

The majority of the Authority’s current liabilities are unearned revenue (\$6.9 million in 2006 and \$6.5 million in 2005), which is 75% (nine of twelve months) of the tax levied on the property in the City of Ann Arbor on July 1, 2006. The original property tax levy, approved by the voters in the City of Ann Arbor, Michigan, was 2.5 mills. However, the property tax levy is subject to the Headlee Amendment to the State of Michigan Constitution and has decreased in recent years and is currently 2.0618 mills. The majority of the 2006 tax levy has been collected and the deferred revenue represents the portion that will be used to help fund operations from October 1, 2006 to June 30, 2007.

The Authority has implemented early the provisions of the Governmental Accounting Standards Board (GASB) Statement #45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension” during 2006 instead of waiting until it is required in fiscal year 2009. This Standard requires the Authority to recognize the expense related to these health care and life insurance benefits on an actuarially determined basis, to better match the expense of the benefits with the period in which employees earn the benefit instead of a “pay as you go” basis. The unfunded actuarial accrued liability was \$10,482,000 as of September 30, 2006.

From 1991 through 2005, the Authority had already recorded postemployment medical benefits obligation of \$3,769,000 under the provisions of the Financial Accounting Standards Board (FASB) #106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." However, under GASB #45, only the amount of the annual required contribution of not paid since the adoption of GASB #45 is recorded as a liability (\$849,000 as of September 30, 2006). Therefore, the previously recorded liability of \$3,769,000 as of September 30, 2005 has been eliminated and reclassified into unrestricted net assets.

At September 30, 2006, the Authority had outstanding commitments relating to the purchase of 20 hybrid diesel electric buses for \$10.6 million with expected deliveries in September 2007 (15) and January 2008 (5). Funding for the buses is through Federal capital grants (\$5.28 million), State capital grants (\$1.32 million) and debt (\$4.0 million). The Authority is pursuing additional federal grants for the additional \$4.0 million cost of the hybrid propulsion system, which would reduce or eliminate the need for debt.

The total assets of the Authority exceeded its total liabilities by \$31,104,000 (net assets) as of September 30, 2006. Of this amount, \$9,326,000 (unrestricted net assets) may be used to fund future operations and meet future obligations of the Authority.

Statement of Revenues, Expenses, and Changes in Net Assets

A summary of the Authority's revenues, expenses and changes in net assets for the year ended September 30, 2006 and 2005 follows (in \$1,000s):

	2006	2005
Operating revenues	\$ 3,328	\$ 3,023
Operating expenses	<u>25,416</u>	<u>23,592</u>
Operating loss	(22,088)	(20,569)
Non-operating revenues	<u>19,367</u>	<u>19,103</u>
Change in net assets before capital contributions	(2,721)	(1,466)
Net Capital contributions	<u>886</u>	<u>1,347</u>
Change in net assets	(1,835)	(119)
Net assets, beginning of year	<u>32,939</u>	<u>33,058</u>
Net assets, end of year	<u>\$31,104</u>	<u>\$32,939</u>

The Authority's primary sources of operating revenues are passenger fares collected in the farebox in each bus, sales of 30-day passes and tokens. Other operating revenues are special fares where someone else than the rider pays the fare, such as the successful go!pass and MRide programs.

Total operating expenses of \$25,416,000 include operations (\$16,459,000), vehicle and facility maintenance (\$4,566,000) and general administration (\$4,391,000). The largest portion of all expenses is for employee wages and fringe benefits of \$13,551,000 or 53.3% of all expenses.

Non-operating revenues include Federal, State and local operating assistance. The property tax revenue increased \$355,000 (4.2%) due to the increase in the taxable value of property in the City of Ann Arbor. State revenues increased \$75,000 (1.1%). The State of Michigan Department of Transportation is not allowed to fund the Authority at an amount lower than the "1997 Floor," which was the 2005 amount of formula operating assistance. Federal revenue decreased \$539,000 due to the decreased utilization of Federal preventive maintenance grant funding from \$2,000,000 to \$1,581,000 and the decrease of \$362,000 in Congestion Mitigation/Air Quality grant, which concluded during 2006.

Capital contributions represent Federal and State grants for the purchase of replacement and new capital assets. The Authority purchased a comprehensive maintenance, purchasing and inventory software program during 2006 for \$787,000. In 2005, the Authority purchased six paratransit buses for \$875,000. The purchase of the software was funded by Federal (\$630,000) and state (\$157,000) capital grants. Most of the funds for capital assets are provided through Federal formula grants (Section 5307) administered by the Federal Transportation Administration. A portion of these Federal formula dollars can be used as operating assistance. In 2006 and 2005, the Authority used \$2,104,000 and \$2,348,000, respectively for operating assistance, such as preventive maintenance, planning and capital cost of contracting. During 2006, the Authority transferred ownership of two buses, originally funded with Federal and State capital grants, to another transit agency in the State of Michigan. The transfer of capital asset amount represents the net book value of the two buses.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the information provided in the basic financial statements.

Economic Factors and Next Year's Budget (Fiscal Year 2007)

The Authority receives significant operating assistance each year from the State of Michigan Comprehensive Transportation Fund. The source of these funds includes a portion of state gasoline taxes, vehicle related sales taxes, license fees and other taxes and fees. These funds are subject to legislative appropriation each year and the percentage of eligible expenses funded is subject to change during the year and subject to reconciliation and audit after the year has concluded. These funds are also subject to a "floor" amount equal to the formula operating assistance received in fiscal year 1997 (\$6,317,122). The poor economy in the State of Michigan and the elimination of the Single Business Tax has reduced the total amount of funds available in the State Operating Budget.

For fiscal year 2007, the Board of Directors adopted a balanced budget with a projected surplus of \$62,000. Subsequent to the 2007 budget's adoption, the Authority commissioned an actuarial valuation of the post-retirement medical benefits plan as of September 30, 2006. As part of the report, the actuaries calculated the annual required contribution for fiscal year 2007. The amount increased from an estimated \$436,500 in the approved budget to \$922,100 in the actuarial valuation, an increase of \$485,600. Also, ultra-low sulfur 5% biodiesel fuel prices have decreased from \$2.55 per gallon to \$2.25 per gallon. The Authority uses approximately 710,000 gallons of ultra-low sulfur diesel fuel per year and this expense represents 7.7% of the fiscal year 2007 operating budget.

The Authority also receives significant funding through the property tax levy on the citizens of the City of Ann Arbor. This amount has been increasing by 4.0% to 5.0% annually for the past 5 years and appears to be growing into the future. The Ann Arbor area has consistently been noted as a quality place to live with the University of Michigan and Eastern Michigan University along with hospitals and numerous cultural institutions in the area.

However, subsequent to September 30, 2006, Pfizer, the largest property taxpayer in the City of Ann Arbor announced they are closing their Ann Arbor facility, which currently employs 2100.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the transit provider's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Controller/CFO, Ann Arbor Transportation Authority, 2700 South Industrial Highway, Ann Arbor, Michigan 48104.

ANN ARBOR TRANSPORTATION AUTHORITY

BALANCE SHEETS

SEPTEMBER 30, 2006 AND 2005

ASSETS	2006	2005
CURRENT ASSETS:		
Cash (Note 2)	\$ 4,762,431	\$ 1,142,235
Investments (Note 2)	11,731,788	12,910,369
Accounts receivable	220,172	364,828
Grants receivable (Note 3)	714,134	406,513
Other receivables (Note 4)	410,702	2,825,729
Inventory	630,165	635,321
Prepaid expenses	748,964	554,716
Total current assets	19,218,356	18,839,711
CAPITAL ASSETS: (Note 5)		
Land and improvements	2,180,821	2,180,821
Park and Ride lot construction	1,494,007	1,486,007
Buildings and improvements	16,177,803	16,177,803
Equipment and other (Note 13)	28,750,876	29,139,281
Total capital assets	48,603,507	48,983,912
Less accumulated depreciation	26,825,559	25,129,885
Net capital assets	21,777,948	23,854,027
TOTAL ASSETS	\$ 40,996,304	\$ 42,693,738
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 437,057	\$ 536,022
Grant refunds payable (Note 3)	534,784	1,592,847
Accrued payroll	355,311	350,764
Other accrued expenses	861,458	762,355
Deferred revenue (Note 6)	6,854,613	6,512,410
Total current liabilities	9,043,223	9,754,398
CONTINGENCIES (Note 8)		
POST-EMPLOYMENT BENEFIT OBLIGATION (Note 12)	848,931	
Total liabilities	9,892,154	9,754,398
NET ASSETS:		
Invested in capital assets	21,777,948	23,854,027
Unrestricted	9,326,202	9,085,313
Total net assets	31,104,150	32,939,340
TOTAL LIABILITIES AND NET ASSETS	\$ 40,996,304	\$ 42,693,738

See notes to financial statements.

ANN ARBOR TRANSPORTATION AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	2006	2005
OPERATING REVENUES (Note 9)	\$ 3,327,994	\$ 3,022,671
OPERATING EXPENSES (Notes 7, 9 and 12):		
Operations	16,459,213	14,931,990
Maintenance	4,566,523	4,441,909
General administration	<u>4,390,406</u>	<u>4,217,865</u>
Total operating expenses	<u>25,416,142</u>	<u>23,591,764</u>
OPERATING LOSS	(22,088,148)	(20,569,093)
NONOPERATING REVENUES:		
Local	10,002,425	9,291,615
State	6,987,262	6,911,791
Federal	<u>2,377,112</u>	<u>2,899,263</u>
Total nonoperating revenues	<u>19,366,799</u>	<u>19,102,669</u>
CHANGE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	(2,721,349)	(1,466,424)
CAPITAL CONTRIBUTIONS	985,808	1,347,732
TRANSFER OF CAPITAL ASSETS (Note 13)	<u>(99,649)</u>	<u> </u>
CHANGE IN NET ASSETS	(1,835,190)	(118,692)
TOTAL NET ASSETS, BEGINNING OF YEAR, AS RESTATED	<u>32,939,340</u>	<u>33,058,032</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ 31,104,150</u>	<u>\$ 32,939,340</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 9,326,202</u>	<u>\$ 9,085,313</u>

See notes to financial statements.

ANN ARBOR TRANSPORTATION AUTHORITY

STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from transit operations	\$ 2,834,662	\$ 2,467,982
Payments for salaries and wages and fringe benefits	(12,504,780)	(12,793,313)
Payments to suppliers	(5,413,042)	(5,141,372)
Payments for claims and insurance	(468,682)	(460,968)
Payments for purchased transportation	(2,775,666)	(2,516,862)
Net cash used in operating activities	<u>(18,327,508)</u>	<u>(18,444,533)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Nonoperating revenue:		
Local	12,192,941	6,940,646
State	5,991,571	6,243,550
Federal	1,971,404	3,080,415
Net cash provided by noncapital financing activities	<u>20,155,916</u>	<u>16,264,611</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(883,420)	(1,646,055)
Capital contributed by state and federal grants	1,021,524	2,261,643
Proceeds from sale of equipment	5,621	8,815
Net cash used in capital and related financing activities	<u>143,725</u>	<u>624,403</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(20,709,115)	(9,316,139)
Proceeds from sale and maturities of investment securities	21,887,696	5,595,544
Interest income	469,482	253,734
Net cash provided by (used in) investing activities	<u>1,648,063</u>	<u>(3,466,861)</u>
NET INCREASE (DECREASE) IN CASH	3,620,196	(5,022,380)
CASH AT BEGINNING OF YEAR	<u>1,142,235</u>	<u>6,164,615</u>
CASH AT END OF YEAR	<u>\$ 4,762,431</u>	<u>\$ 1,142,235</u>

See notes to financial statements.

ANN ARBOR TRANSPORTATION AUTHORITY

STATEMENTS OF CASH FLOWS (Continued) YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	2006	2005
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (22,088,148)	\$ (20,569,093)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	2,859,850	2,821,341
Changes in assets and liabilities which (used) provided cash:		
Receivables	236,256	(203,057)
Inventory	5,156	(62,494)
Prepaid expenses	(194,248)	100,762
Payables	(98,965)	(590,781)
Accrued payroll	4,547	29,183
Other accrued expenses	948,044	29,606
Total adjustments	<u>3,760,640</u>	<u>2,124,560</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (18,327,508)</u>	<u>\$ (18,444,533)</u>

See notes to financial statements.

ANN ARBOR TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEARS ENDED SEPTEMBER 30, 2006 and 2005

1. NATURE OF THE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of the Organization

The Ann Arbor Transportation Authority (the "Authority") is a governmental unit established under statutes of the State of Michigan to provide a mass transportation system within and beyond the corporate limits of the City of Ann Arbor.

The Authority is not included in the financial reporting entity of the City of Ann Arbor because the City does not have the ability to exercise significant oversight over the Authority. The Authority can independently generate revenue, adopt budgets and borrow funds. The members of the governing Board of Directors are appointed by the mayor of the City and confirmed by the City Council.

Significant Accounting Policies

Basis of Accounting - In accordance with Governmental Accounting Standards Board (GASB) No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the Authority applies all applicable GASB pronouncements as well as all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Investments are held primarily in certificates of deposit and in two pooled municipal investment trust funds. These trust funds consist of certificates of deposit, United States Treasury securities, repurchase agreements and commercial paper.

Revenues, Capital Grant Contributions and Unearned Revenue - Revenues are classified as operating and nonoperating revenues and capital contributions. Operating revenues include activities that have the characteristics of exchange transactions, such as passenger fares and special transit fares. Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as Federal and State operating grants, City of Ann Arbor tax levies, fees paid by other municipalities under purchase of service agreements, and interest income. Capital contributions are Federal and State grants designated for the purchase and/or construction of land, buildings and equipment and are recognized as revenue and are included in the statement of revenues, expenses and changes in net assets.

The Authority recognizes as revenue only that portion of the City of Ann Arbor's tax levy for transit services which is attributable to the Authority's fiscal year. Accordingly, only one quarter of the tax levy and the inventory replacement tax for the period July 1 to June 30 is included as nonoperating revenues in the accompanying statements of revenues, expenses and net assets. The balance of the tax levy is recorded as unearned revenue. (See Note 6).

Vacation and Sick Pay - The Authority records expense for vacation and sick pay benefits when earned by the employees. The accrual for unused vacation and sick leave is reported as a current liability because there is no limit on how many earned vacation and sick days an employee can use in a year.

Inventory is stated at the lower of cost (first-in, first-out basis) or market.

Statement of Cash Flows – For purposes of this statement, the Authority considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Capital Assets – Capital assets, which include land, buildings, vehicles and other equipment are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation is computed using the straight-line method based on the estimated useful lives of 20 to 30 years for land improvements, of 6 to 30 years for buildings and improvements and of 3 to 12 years for equipment.

Net Assets are displayed in three components as follows:

Invested in Capital Assets – This consists of capital assets, net of accumulated depreciation.

Unrestricted – This consists of net assets that do not meet the definition of “invested in capital assets.”

Unrestricted- Designated for Post-Employment Benefit Obligations- This consists of an amount designated by the Board for post-employment benefit obligations related to health and life insurances.

Use of Estimates - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications – Certain amounts from the prior year have been reclassified to conform to the current year presentation.

2. CASH AND INVESTMENTS

The following is a reconciliation of deposit and investment balances as of September 30, 2006 and 2005:

Balance Sheet:	<u>2006</u>	<u>2005</u>
Cash	\$ 4,762,431	\$ 1,142,235
Investments	<u>11,731,788</u>	<u>12,910,369</u>
Total	<u>\$ 16,494,219</u>	<u>\$14,052,604</u>

	<u>2006</u>	<u>2005</u>
Deposits and Investments:		
Bank deposits (checking, savings and certificates of deposit)	\$13,108,294	\$ 7,747,584
Investment in government liquid asset fund accounts	3,379,055	6,298,150
Cash on hand	<u>6,870</u>	<u>6,870</u>
Total	<u>\$16,494,219</u>	<u>\$ 14,052,604</u>

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Investments – In addition to the State restrictions noted above, the Authority's policy is to limit investments to the following:

- Certificates of deposit, depository receipts, and repurchases agreements (covered by direct obligations of the United States Treasury) with any financial institution that maintains a principal office or branch office located in the State of Michigan. The total investment (exclusive of checking accounts) in any financial institutions shall not exceed the lesser of twenty percent of that financial institution's capital and surplus or \$4,000,000.
- Bonds and other direct obligations of the United States or any agency thereof with a maturity of three years or less.
- Top rated commercial paper of corporations, acquired through the bidding process or through the secondary market with a maturity not more than 270 days after the date of purchase. Not more than \$500,000 may be invested in a single corporation.
- Governmental mutual funds which invest only in authorized investments for local units of government under state law and which offer daily liquidity.

The Authority chooses to disclose its investments by specifically identifying each. As of September 30, 2006, the Authority had the following deposits and investments.

<u>Investment</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Fair Value</u>	<u>Rating</u>
Government Liquid Assets Funds	N/A	Various	\$ 3,353,706	Not rated
JP Morgan Chase Money Market Fund	N/A	4.74%	12,633	Moody's AAA
Comerica Money Market Fund	N/A	4.90%	<u>12,716</u>	Moody's A1P1F1
			<u>\$ 3,379,055</u>	

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of investments above. The Authority's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates, except as noted in the Authority's investment policy above.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Authority's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at September 30, 2006.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of September 30, 2006, \$12,691,935 of the Authority's bank balance of \$13,216,448 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments of collateral securities that are in the possession of an outside party. State law does not require and the Authority does not have a policy for investment custodial credit risk. As of September 30, 2006, none of the Authority's investments were exposed to custodial credit risk since the securities are held in the Authority's name by the counterparty.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Authority's investment policy limits investments as described above.

3. GRANTS RECEIVABLE/GRANT REFUNDS PAYABLE

The Authority recognizes a receivable under approved grants as related project expenditures are incurred and the grant revenue earned. Grant refunds payable represent amounts to be returned to the grantor. The following grant amounts were outstanding at September 30:

	2006	2005
Michigan Department of Transportation:		
Buses and related equipment	\$	\$ 175,169
Rideshare program	19,040	20,010
Operating assistance	(518,655)	(1,546,125)
Planning	16,800	8,726
Transportation to Work (formerly Project Zero)	47	38,930
Shop equipment	0	3,121
Building improvements	0	0
Computer hardware and software	33,270	5,780
Park and Ride lot improvements	1,600	1,718
Rail Study	(2,700)	(2,700)
Federal Transit Administration:		
Buses and related equipment	8,894	4,320
Planning	79,315	69,813
Shop equipment	0	1,117
Preventive Maintenance	400,000	0
Computer hardware and software	135,339	23,122
Park and Ride lot improvements	6,400	6,871
Congestion Mitigation/Air Quality		3,794
NET GRANTS RECEIVABLE (REFUNDS PAYABLE)	<u>\$ 179,350</u>	<u>\$ (1,186,334)</u>
REMAINING UNEARNED BALANCES ON ABOVE GRANTS	<u>\$ 5,358,494</u>	<u>\$ 4,233,876</u>

The grants receivable/grant refunds payable are reported on the balance sheets as follows:

	2006	2005
Grants receivable	\$ 714,134	\$ 406,513
Grant refunds payable	<u>(534,784)</u>	<u>(1,592,847)</u>
Net grants receivable (refunds payable)	<u>\$ 179,350</u>	<u>\$ (1,186,334)</u>

4. OTHER RECEIVABLES

Other receivables consist of the following amounts:

	2006	2005
City of Ann Arbor - tax levy	\$ 145,590	\$ 2,546,010
City of Ann Arbor - inventory replacement tax	74,574	74,574
Interest receivable	102,502	25,509
Workers' compensation insurance refund	<u>88,036</u>	<u>179,636</u>
Total	<u>\$ 410,702</u>	<u>\$ 2,825,729</u>

5. CAPITAL ASSETS

Capital asset activity during the fiscal year ended September 30, 2006 is as follows:

	Balance October 1	Additions	Deletions	Balance September 30
Capital assets not being depreciated:				
Land and improvements	\$ 2,180,821	\$	\$	\$ 2,180,821
Total capital assets not being depreciated	<u>2,180,821</u>			<u>2,180,821</u>
Capital assets being depreciated:				
Park and ride lot construction	1,486,007	8,001		1,494,008
Buildings	16,177,803			16,177,803
Vehicles and related equipment	21,752,750	8,894	1,062,413	20,699,231
Radio and telephone systems	200,836	2,758		203,594
Fare collection equipment	1,003,900			1,003,900
Maintenance equipment	500,920	4,485		505,405
Office equipment and furniture	1,472,259	853,324	183,996	2,141,587
Passenger shelters	762,217			762,217
Other	187,250			187,250
Advanced operating system	<u>3,259,149</u>	<u>5,958</u>	<u>17,416</u>	<u>3,247,691</u>
Total capital assets being depreciated	<u>46,803,091</u>	<u>883,420</u>	<u>1,263,825</u>	<u>46,422,686</u>
Less accumulated depreciation:				
Park and ride lot construction	442,572	76,108		518,680
Buildings	8,095,211	586,021		8,681,232
Vehicles and related equipment	11,088,152	1,706,825	962,764	11,832,213
Radio and telephone systems	147,880	13,332		161,212
Fare collection equipment	470,561	84,108		554,669
Maintenance equipment	301,861	43,500		345,361
Office equipment and furniture	984,536	219,944	183,996	1,020,484
Passenger shelters	367,037	61,989		429,026
Other	175,335	5,252		180,587
Advanced operating system	<u>3,056,740</u>	<u>62,771</u>	<u>17,416</u>	<u>3,102,095</u>
Total accumulated depreciation	<u>25,129,885</u>	<u>2,859,850</u>	<u>1,164,176</u>	<u>26,825,559</u>
Total capital assets being depreciated, net	<u>21,673,206</u>	<u>(1,976,430)</u>	<u>99,649</u>	<u>19,597,127</u>
TOTAL CAPITAL ASSETS, NET	<u>\$ 23,854,027</u>	<u>\$ (1,976,430)</u>	<u>\$ 99,649</u>	<u>\$ 21,777,948</u>

5. CAPITAL ASSETS (Continued)

Capital asset activity during the fiscal year ended September 30, 2005 is as follows:

	Balance October 1	Additions	Deletions	Balance September 30
Capital assets not being depreciated:				
Land and improvements	\$ 2,180,821	\$	\$	\$ 2,180,821
Construction in progress	<u>1,076,040</u>	<u></u>	<u>1,076,040</u>	<u></u>
Total capital assets not being depreciated	<u>3,256,861</u>	<u></u>	<u>1,076,040</u>	<u>2,180,821</u>
Capital assets being depreciated:				
Park and ride lot construction	1,477,419	8,588		1,486,007
Buildings	14,583,862	1,593,941		16,177,803
Vehicles and related equipment	22,168,309	933,289	1,348,848	21,752,750
Radio and telephone systems	203,866		3,030	200,836
Fare collection equipment	1,003,900			1,003,900
Maintenance equipment	476,965	24,430	475	500,920
Office equipment and furniture	1,524,569	107,912	160,222	1,472,259
Passenger shelters	724,261	37,956		762,217
Other	187,250			187,250
Advanced operating system	<u>3,243,171</u>	<u>15,978</u>	<u></u>	<u>3,259,149</u>
Total capital assets being depreciated	<u>45,593,572</u>	<u>2,722,094</u>	<u>1,512,575</u>	<u>46,803,091</u>
Less accumulated depreciation:				
Park and ride lot construction	366,837	75,735		442,572
Buildings	7,549,081	546,130		8,095,211
Vehicles and related equipment	10,641,978	1,781,394	1,335,220	11,088,152
Radio and telephone systems	136,254	14,656	3,030	147,880
Fare collection equipment	386,453	84,108		470,561
Maintenance equipment	258,391	43,945	475	301,861
Office equipment and furniture	1,024,188	120,570	160,222	984,536
Passenger shelters	303,380	63,657		367,037
Other	170,083	5,252		175,335
Advanced operating system	<u>2,970,847</u>	<u>85,893</u>	<u></u>	<u>3,056,740</u>
Total accumulated depreciation	<u>23,807,492</u>	<u>2,821,340</u>	<u>1,498,947</u>	<u>25,129,885</u>
Total capital assets being depreciated, net	<u>21,786,080</u>	<u>(99,246)</u>	<u>13,628</u>	<u>21,673,206</u>
TOTAL CAPITAL ASSETS, NET	<u>\$ 25,042,941</u>	<u>\$ (99,246)</u>	<u>\$ 1,089,668</u>	<u>\$ 23,854,027</u>

6. UNEARNED REVENUE

Deferred revenue represents amounts not earned, and consists of the following amounts:

	2006	2005
City of Ann Arbor - tax levy	\$ 6,798,684	\$ 6,456,479
City of Ann Arbor - inventory replacement tax	<u>55,929</u>	<u>55,931</u>
Total	<u>\$ 6,854,613</u>	<u>\$ 6,512,410</u>

7. EMPLOYEES PENSION PLAN

The Authority provides pension benefits for substantially all of its employees through a defined contribution plan called the Ann Arbor Transportation Authority Employees' Pension Plan ("Plan"). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after one year of employment. The Authority's contributions for each employee and interest allocated to the employee's account are fully vested after five years of employment. Authority contributions for, and interest forfeited by, employees who leave employment before five years of service are used to reduce the Authority's current year contribution requirement. Employees contribute 3% of their gross earnings to the plan, which amounted to \$251,000 for the year ended September 30, 2006. The Authority's contribution to the plan is 9% less forfeitures of the employee's gross earnings and amounted to \$755,000 and \$793,000 for the years ended September 30, 2006 and 2005, respectively. Total payroll and covered payroll was approximately \$9,449,000 and \$8,384,000 for 2006 and \$9,497,000 and \$8,811,000 for 2005.

The Authority's Board of Directors administers the Plan, and also establishes contribution requirements and approves any Plan amendments.

8. CONTINGENCIES

The Authority is a defendant in several pending personal injury lawsuits. In the opinion of management, the outcome of this litigation and other matters will not significantly affect the Authority's financial position or results of its operations.

9. SUBCONTRACT SERVICE

The Authority subcontracts with a taxi cab company to provide certain services. The Authority pays the cab company fees based on the level of service provided, and the cab company collects and retains the passenger fares as an advance against the monthly billings. Operating revenues and operating expenses include approximately \$440,800 and \$290,100 of fares for these services in the years ended September 30, 2006 and 2005, respectively.

10. COST ALLOCATION PLANS

The Bus Transit Division of the Michigan Department of Transportation has approved the Authority's cost allocation plans for all material allocated expenses. These allocation plans have been used in the preparation of the financial statements.

11. INFORMATIONAL SUMMARY OF PROJECTED REVENUES, EXPENDITURES AND METHOD OF FINANCING CAPITAL PROJECTS

The Authority has prepared and made available for inspection the informational summary of projected revenues, expenses and capital project costs recommended in Section 15, subsection 1(h), Act 621, PA 1978, as amended, (MCLA 141.435) (MSA 5.3228 (35)) and as required in Act 51, 10e (1) (d) (vii).

12. POST EMPLOYMENT RETIREMENT BENEFITS OTHER THAN PENSIONS

Plan Description

The Authority provides contributory and noncontributory medical benefits and basic life insurance coverage for eligible retirees and their spouses. The benefits for bargaining employees are specified by union contract while the Board of Directors establishes those for non-bargaining employees. Bargaining and non-bargaining employees who retire at or after age 62 with at least 15 years of service are eligible for medical coverage. Retirees have the option to select an alternate medical insurance carrier and be reimbursed for such coverage at a rate of up to 130% of that year's core HMO single person premium. Retiree's spouses are eligible to receive 50% of the monthly premium for the core HMO single person premium toward medical coverage. Bargaining and non-bargaining employees who retire at or after age 59-1/2 with at least 15 years of service are eligible for life insurance coverage in the amount of \$30,000 until age 64, \$20,000 from age 65 to 69, \$15,000 from age 70 to 74 and \$10,000 age 75 and over.

Funding Policy and Annual OPEB Cost. For this plan, contribution requirements of the plan members and the Authority are established and may be amended by union contract for bargaining employees and for non-bargaining employees by the Board of Directors. The Authority's annual other postemployment benefit (OPEB) cost (expense) for the plan is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The Authority's annual OPEB cost for the current year and the related information for the plan is as follows:

Contribution rates:

Authority – Actuarially determined	4.3%
Plan members	N/A

Annual required contribution	\$ 886,635
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	886,635
Contributions made	(37,704)
Increase in net OPEB obligation	848,931
Net OPEB obligation – beginning of year	-
Net OPEB obligation – end of year	<u>\$ 848,931</u>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended September 30, 2006, for the plan is as follows (this is first year for OPEB determination):

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
9/30/06	\$886,635	4.3%	\$848,931

Funded Status and Funding Progress. The funded status of the plan as of September 30, 2006, was as follows:

Actuarial accrued liabilities (a)	\$ 10,482,425
Actuarial value of plan assets (b)	<u>-</u>
Unfunded actuarial accrued liability (funding excess) (a) – (b)	<u>\$ 10,482,425</u>
Funded ratio (b) / (a)	0%
Covered payroll (c)	\$ 9,449,000
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ([(a) – (b)] / (c))	110.9%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liability for benefits.

Actuarial Methods and Assumptions. Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the Authority and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Actuarial valuation date	9/30/06
Actuarial cost method	Entry Age
Amortization method	Level Percent of Payroll Open
Remaining amortization period	30 years
Asset valuation method	N/A
Actuarial assumptions:	
Investment rate of return	5.0%
Projected salary increases	N/A
Healthcare inflation rate	12% in 2007 Grading to 4% in 2016

13. TRANSFER OF CAPITAL ASSETS

During 2006, the Authority transferred ownership of two buses, originally funded with Federal and State capital grants, to another transit agency in the State of Michigan. This amount represents the net book value of the two buses.

14. COMMITMENTS

At September 30, 2006, the Authority had outstanding commitments relating to the purchase of 20 hybrid diesel electric buses for \$10,600,000. Funding for the buses is through Federal capital grants (\$5.28 million), State capital grants (\$1.32 million) and debt (\$4.0 million). The Authority is pursuing additional federal grants for the additional \$4.0 million cost of the hybrid propulsion system, which would reduce or eliminate the need for debt.

15. RESTATEMENT

Net assets were restated at October 1, 2005, due to a change in method for determining the liability for post-employment benefits other than pensions. The Authority's annual other post-employment cost (OPEB) is calculated based on the annual required contribution of the employer under GASB 45 adopted for the year ended September 30, 2006. Through September 30, 2005, this annual cost was computed under FASB 106 provisions. Operating expenses were restated for the year ended September 30, 2005 to a "pay as you go" basis since GASB 45 liability computations were not prepared. This restatement caused an increase in net assets at October 1, 2005 of \$3,768,804.

Ann Arbor Transportation Authority

GASB Statement 45 Required Supplementary Information

Schedule of Funding Progress

Retired Employees Healthcare Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
9/30/2006	\$ -	\$ 10,482,425	\$10,482,425	0.0%	% \$9,449,000	110.9%



REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

December 11, 2006

To the Members of the Board of Directors of
Ann Arbor Transportation Authority
Ann Arbor, Michigan

We have audited the basic financial statements of Ann Arbor Transportation Authority, as of and for the years ended September 30, 2006 and 2005, and have issued our report thereon dated December 11, 2006. Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying additional information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information on pages 24 - 30 is the responsibility of the management of Ann Arbor Transportation Authority. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements, and, in our opinion, is fairly stated, in all material respects when considered in relation to the basic financial statements taken as a whole.

The schedules of mileage data and of vehicle hours and passengers on pages 33 and 34 are the responsibility of the Authority's management. Such schedules have not been subjected to the auditing procedures applied in our audits of the basic financial statements and, accordingly, we express no opinion on them.

ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF OPERATING REVENUES YEARS ENDED SEPTEMBER 30, 2006 AND 2005

OPERATING REVENUES:	2006	2005
Passenger fares:		
Urban	\$ 3,056,779	\$ 2,781,530
Nonurban	<u>271,215</u>	<u>241,141</u>
TOTAL OPERATING REVENUES	<u>\$ 3,327,994</u>	<u>\$ 3,022,671</u>

See Independent Auditors' Report on Additional Information.

ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF OPERATING EXPENSES YEAR ENDED SEPTEMBER 30, 2006 WITH COMPARATIVE TOTALS FOR 2005

	Operations	Maintenance	General Administration	2006 Total	2005 Total
LABOR:					
Operators' salaries and wages	\$ 4,468,861			\$ 4,468,861	\$ 4,292,309
Other salaries and wages	621,298	\$ 1,500,796	\$ 1,121,875	3,243,969	3,447,349
FRINGE BENEFITS					
Fringe wages	1,130,035	347,417	258,428	1,735,880	1,757,177
Social security payroll taxes	475,772	138,936	99,365	714,073	716,052
Medical insurance	828,745	332,559	96,208	1,257,512	1,184,173
Pension	493,061	150,912	110,588	754,561	792,997
Post-retirement medical benefits	585,205	183,730	79,996	848,931	33,664
Other fringe benefits	368,432	113,808	44,538	526,778	444,358
SERVICES:					
Advertising fees			4,235	4,235	31,111
Other services		782,956	529,357	1,312,313	1,190,998
Auditing fees			18,640	18,640	22,800
MATERIALS AND SUPPLIES CONSUMED:					
Fuel and lubricants	1,754,417	6,420		1,760,837	1,195,484
Tires and tubes	71,435			71,435	73,677
Materials and supplies	9,603	965,489	311,172	1,286,264	1,295,333
UTILITIES					
			378,412	378,412	377,748
CASUALTY AND LIABILITY COSTS:					
Premiums for public liability and property damage insurance	299,814			299,814	384,320
Other casualty and liability costs			173,669	173,669	173,762
PURCHASED TRANSPORTATION					
	3,413,654			3,413,654	3,048,130
MISCELLANEOUS EXPENSES:					
Travel and meetings			37,073	37,073	53,392
Advertising and promotion media			42,834	42,834	37,401
Other			189,208	189,208	200,983
LEASES AND RENTALS					
	9,856		7,483	17,339	17,203
DEPRECIATION					
	<u>1,929,025</u>	<u>43,500</u>	<u>887,325</u>	<u>2,859,850</u>	<u>2,821,341</u>
TOTAL OPERATING EXPENSES					
	<u>\$ 16,459,213</u>	<u>\$ 4,566,523</u>	<u>\$ 4,390,406</u>	<u>\$25,416,142</u>	<u>\$23,591,762</u>

See Independent Auditors' Report on Additional Information.

ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF NONOPERATING REVENUES YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	2006	2005
LOCAL NONOPERATING REVENUE:		
Purchase of service agreements:		
City of Ypsilanti	\$ 190,804	\$ 183,718
City of Ann Arbor - Downtown Development Authority	22,596	24,000
City of Milan		2,925
Pittsfield Township	113,718	108,524
Superior Township	19,081	19,037
Ypsilanti Township	223,707	209,116
Northfield's Human Services		5,000
Total purchase of service agreements	569,906	552,320
City of Ann Arbor - tax levy	8,722,711	8,367,448
City of Ann Arbor - inventory replacement tax	74,574	74,574
Total	8,797,285	8,442,022
Interest income	546,476	277,500
Advertising income	80,720	13,400
Other revenue	2,363	741
Gain on sale of equipment	5,675	5,632
Total local nonoperating revenue	10,002,425	9,291,615
STATE AND FEDERAL NONOPERATING REVENUE:		
State of Michigan operating grants:		
Formula operating assistance - urban (Act 51)	6,446,053	6,317,122
Formula operating assistance - non-urban (Act 51)	243,319	188,536
Planning program		23,482
Capital cost of contracting		40,000
Preventive maintenance	285,665	
Transportation to Work (formerly Project Zero)		29,288
Prior years formula adjustments - urban and nonurban	(66,036)	237,388
Special services	78,261	75,975
Total state nonoperating revenue	6,987,262	6,911,791
Federal operating grants:		
Unified planning program passed through SEMCOG (Section 5303)	49,440	49,440
Planning (Section 5307)	363,878	187,867
Planning (Section 5313) - passed through the State of Michigan	16,800	
Federal operating assistance - non-urban (Section 5311) - passed through the State of Michigan	105,386	60,822
Capital cost of contracting (Section 5307)	160,000	160,000
Congestion Mitigation/Air Quality (Section 5307)	59,171	421,124
Preventive maintenance (Section 5307)	1,580,607	2,000,000
Rideshare program (STP - passed through the State of Michigan)	19,040	
Rideshare program (CMAQ - passed through the State of Michigan)	22,790	20,010
Total federal nonoperating revenue	2,377,112	2,899,263
Total state and federal nonoperating revenue	9,364,374	9,811,054
TOTAL NONOPERATING REVENUES	\$ 19,366,799	\$ 19,102,669

See Independent Auditors' Report on Additional Information.

ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION

SCHEDULE OF FEDERAL AND STATE INTEREST IN CAPITAL ASSETS

YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	2006	2005
FEDERAL AND STATE INTEREST IN CAPITAL ASSETS:		
Balance, beginning of year	\$ 20,600,695	\$ 21,792,258
Contributions - Federal and State capital grants	985,808	1,347,732
Transfer of Federal and State interest in equipment to another authority	(102,587)	
Depreciation on assets purchased with Federal and State capital grants	<u>(2,593,415)</u>	<u>(2,539,295)</u>
Balance, end of year	<u>\$ 18,890,501</u>	<u>\$ 20,600,695</u>
Detail of Federal and State interest in capital assets at September 30		
Federal government	\$ 34,742,686	\$ 35,020,258
State of Michigan	<u>7,737,059</u>	<u>7,694,046</u>
Total	42,479,745	42,714,304
Less accumulated depreciation on contributed assets	<u>23,589,244</u>	<u>22,113,609</u>
Net Federal and State interest in capital assets	18,890,501	20,600,695
Net local interest in capital assets	<u>2,887,447</u>	<u>3,253,332</u>
Net assets invested in capital assets	<u>\$ 21,777,948</u>	<u>\$ 23,854,027</u>

See Independent Auditors' Report on Additional Information.

ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF OPERATING EXPENSES BY CONTRACT AND GENERAL OPERATIONS YEAR ENDED SEPTEMBER 30, 2006, WITH COMPARATIVE TOTALS FOR 2005

	Special Services 2002-0007/Z18	Planning 2002-0007/Z16	Preventive Maintenance 2002-0007/Z4	Rideshare Program 2005-0091	Rideshare Program 2006-0380	Non Urban Operations (Sec. 5311: 2002-0007/Z15)	Urban Operations		2006 Total	2005 Total
							Paratransit	Fixed Route		
TOTAL OPERATING EXPENSES:										
Labor			\$ 285,665	\$ 12,271	\$ 4,527	\$ 11,095	\$ 67,089	\$ 7,332,183	\$ 7,712,830	\$ 7,739,658
Fringe benefits				4,856	1,991	7,118	45,404	5,778,366	5,837,735	4,928,423
Services		\$ 21,000		2,800	7,251		1,040	1,303,097	1,335,188	1,244,909
Materials and supplies				363	5,271		45,551	3,067,351	3,118,536	2,564,494
Utilities								378,412	378,412	377,748
Casualty and liability costs								473,483	473,483	558,082
Purchased transportation	\$ 172,025					601,707	2,639,922		3,413,654	3,048,130
Miscellaneous				2,500			9,237	257,378	269,115	291,776
Leases and rentals								17,339	17,339	17,203
Depreciation								2,859,850	2,859,850	2,821,341
Total operating expenses	172,025	21,000	285,665	22,790	19,040	619,920	2,808,243	21,467,459	25,416,142	23,591,764
Less ineligible expenses							160,000	4,664,728	4,824,728	5,383,281
TOTAL	\$ 172,025	\$ 21,000	\$ 285,665	\$ 22,790	\$ 19,040	\$ 619,920	\$ 2,648,243	\$ 16,802,731	\$ 20,591,414	\$ 18,208,483

See Independent Auditors' Report on Additional Information.

ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF COMPUTATIONS FOR NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS FOR STATE OPERATING ASSISTANCE YEAR ENDED SEPTEMBER 30, 2006

	Non Urban Operations	Urban Operations	
		Paratransit	Fixed Route
EXPENSES:			
Labor	\$ 11,095	\$ 67,089	\$ 7,332,183
Fringe benefits	7,118	45,404	5,778,366
Services		1,040	1,303,097
Materials and supplies		45,551	3,067,351
Utilities			378,412
Casualty and liability costs			473,483
Purchased transportation	601,707	2,639,922	
Miscellaneous		9,237	257,378
Leases and rentals			17,339
Depreciation			2,859,850
Total expenses	619,920	2,808,243	21,467,459
LESS INELIGIBLE EXPENSES:			
Items reimbursed by Federal grants (Note A):			
Capital Cost of Contracting (Section 5307)		160,000	
Congestion Mitigation/Air Quality (Section 5307)			59,171
Planning (Section 5307)			363,878
Preventative Maintenance (Section 5307)			1,580,607
Unified planning program, includes local share (Section 5303)			61,800
Total		160,000	2,065,456
Depreciation and amortization (Note C)			2,593,415
Miscellaneous expense (Note D)			4,994
Total		160,000	4,663,865
Net eligible expenses	619,920	2,648,243	16,803,594
LESS PROJECT REVENUE -			
Miscellaneous income (Note E)			863
TOTAL ELIGIBLE FOR STATE OPERATING ASSISTANCE	<u>\$ 619,920</u>	<u>\$ 2,648,243</u>	<u>\$ 16,802,731</u>
State operating assistance (39.25% for nonurban, 33.14% for urban operations, subject to 1997 Floor)	\$ 243,319	\$ 877,628	\$ 5,568,425
Federal (Section 5311) (17.0% for nonurban operations)	<u>105,386</u>		
TOTAL	<u>\$ 348,705</u>	<u>\$ 877,628</u>	<u>\$ 5,568,425</u>

See Independent Auditors' Report on Additional Information.

(Continued)

ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - NOTES TO SCHEDULE OF COMPUTATIONS FOR NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS FOR STATE OPERATING ASSISTANCE YEAR ENDED SEPTEMBER 30, 2006

A. ITEMS REIMBURSED BY FEDERAL GRANTS

Items reimbursed directly by Federal grants are deducted from total expenses in arriving at the net eligible expense total.

B. ITEMS REIMBURSED BY STATE OF MICHIGAN GRANTS

Items reimbursed by State of Michigan grants are deducted from total expenses in arriving at net eligible expenses total.

C. DEPRECIATION AND AMORTIZATION

Depreciation and amortization incurred on assets funded with State and Federal grants is an ineligible expense pursuant to State of Michigan regulations.

D. MISCELLANEOUS EXPENSE

The amounts disallowed represent a percentage of the annual dues paid to the American Public Transit Association and the Michigan Public Transit Association. It was determined that these organizations devote a portion of their efforts, 14.0% and 6.8%, respectively, to influencing legislation which is not eligible for reimbursement according to OMB Circular A-87.

E. PROJECT REVENUE - MISCELLANEOUS INCOME

Miscellaneous income used to reduce net eligible expenses represents other miscellaneous income.

(Concluded)

See Independent Auditors' Report on Additional Information.

ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF FINANCIAL ASSISTANCE - FEDERAL AND STATE CAPITAL CONTRIBUTIONS YEAR ENDED SEPTEMBER 30, 2006

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	State Grantor Number	Program Or Award Amount	Federal Revenue	State Revenue	Disbursements/ Expenditures	Amount Remaining
U.S. Department of Transportation:							
Direct assistance:							
Capital assistance:							
(MI90-0403)	20.507	N/A	4,612,002	\$ 665,528		\$ 665,528	\$ 74,537
(MI90-0428)	20.507	N/A	984,000	19,262		19,262	865,686
(MI90-0459)	20.507	N/A	128,000	11,295		11,295	115,588
(MI90-0490)	20.507	N/A	1,216,000	8,894		8,894	1,207,106
(MI03-0221)	20.500	N/A	<u>1,608,012</u>	<u>0</u>		<u>0</u>	<u>1,608,012</u>
Total			9,222,107	704,979		704,979	3,870,929
Michigan Department of Transportation:							
Capital assistance	N/A	2002-007/Z4	580,871		27,052	27,052	10,035
Capital assistance	N/A	2002-007/Z8	1,153,000		248,659	248,659	21,733
Capital assistance	N/A	2002-007/Z12	238,592		5,118	5,118	208,711
Capital assistance	N/A	2002-007/Z17	0		0	0	0
Capital assistance	N/A	2002-007/Z21	206,000		0	0	206,000
Capital assistance	N/A	2002-007/Z19	402,003		<u>0</u>	<u>0</u>	<u>402,003</u>
Total			<u>2,233,592</u>	<u>0</u>	<u>280,829</u>	<u>280,829</u>	<u>848,482</u>
TOTAL CAPITAL ASSISTANCE			<u>\$11,455,699</u>	<u>\$704,979</u>	<u>\$280,829</u>	<u>\$985,808</u>	<u>\$4,719,411</u>

See Independent Auditors' Report on Additional Information.

ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF FINANCIAL ASSISTANCE - FEDERAL AND STATE OPERATING REVENUES YEAR ENDED SEPTEMBER 30, 2006

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	State Grantor Number	Program or Award Amount	Federal Revenue	State Revenue	Disbursements/ Expenditures	Amount Remaining
U. S. Department of Transportation - State and federal operating assistance computations based on operating expense - Direct assistance:							
Unified Planning Program (Section 5303)	20.505	6005	\$49,440	\$49,440			
Planning (Section 5307) (MI90-X380)	20.507		160,000	1			
Planning (Section 5307) (MI90-X459)	20.507		320,000	320,000			
Planning (Section 5307) (MI90-X490)	20.507		240,000	43,877			\$196,123
Capital cost of contracting (Section 5307) (MI90-X459)	20.507		160,000	160,000			
Preventive Maintenance (Section 5307) (MI90-X380)	20.507		1,180,607	1,180,607			
Preventive Maintenance (Section 5307) (MI90-X490)	20.507		720,000	400,000			320,000
Congestion Mitigation/Air Quality (Section 5307) (MI90-X408)	20.507		1,107,000	59,171			
Congestion Mitigation/Air Quality, Passed through MDOT (Sec 5307)	20.507	2005-0091	42,800	22,790		22,790	
Federal Highway Surface Transportation Program (Passed through MDOT)	20.205	2006-0380	142,000	19,040		19,040	122,960
Nonurban Areas, Passed through MDOT (Section 5311)	20.509	2002-0007/Z15		105,386			
State Planning and Research (Section 5313(b)) (MI80-X012/X014)	20.515	2002-0007/Z16	16,800	16,800		21,000	
Michigan Department of Transportation:							
Operating assistance - Act 51 Urban	N/A				6,446,053	24,275,702	
Operating assistance - Act 51 Non-Urban	N/A				243,319	619,920	
Prior year formula adjustments	N/A				-66,036		
Preventive Maintenance	N/A	2002-0007/Z4	345,655		285,665	285,665	
Special Services		2002-0007/Z1	78,261		78,261	172,025	
TOTAL OPERATING ASSISTANCE				\$2,377,112	\$6,987,262	\$25,416,142	\$639,083
STATE PASS-THROUGH:							
Special Services		2002-0007/Z18			<u>\$74,421</u>	<u>\$74,421</u>	

See Independent Auditors' Report on Additional Information.

ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF MILEAGE DATA (UNAUDITED) YEAR ENDED SEPTEMBER 30, 2006

	Public Transportation Mileage		
	Urban	Non-Urban	Charter
FIXED ROUTE:			
First quarter	652,394	-	-
Second quarter	655,330	-	-
Third quarter	609,138	-	-
Fourth quarter	626,158	-	-
Subtotal	2,543,020	-	-
DEMAND - RESPONSE:			
First quarter	-	-	-
Second quarter	-	-	-
Third quarter	-	-	-
Fourth quarter	-	-	-
Subtotal	-	-	-
CONTRACTED SERVICE:			
First quarter	311,850	-	-
Second quarter	311,979	-	-
Third quarter	307,577	-	-
Fourth quarter	277,173	-	-
Subtotal	1,208,579	-	-
TOTAL	3,751,599	-	-

See Independent Auditors' Report on Additional Information.

ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF VEHICLE HOURS AND PASSENGERS (UNAUDITED) YEAR ENDED SEPTEMBER 30, 2006

	Vehicle	Passengers			
	Hours	Total	Regular	Senior	Disabled
FIXED ROUTE:					
First quarter	46,886	1,381,241	1,302,303	46,990	31,948
Second quarter	47,097	1,427,085	1,351,820	43,412	31,853
Third quarter	43,777	1,201,802	1,122,712	45,596	33,494
Fourth quarter	45,000	1,327,890	1,248,363	45,918	33,609
Subtotal	182,760	5,338,018	5,025,198	181,916	130,904
Percent		100.00 %	94.14 %	3.41 %	2.45 %
DEMAND - RESPONSE:					
First quarter	-	-	-	-	-
Second quarter	-	-	-	-	-
Third quarter	-	-	-	-	-
Fourth quarter	-	-	-	-	-
Subtotal	-	-	-	-	-
Percent	-	-	-	-	-
CONTRACTED SERVICE:					
First quarter	22,590	41,707	4,124	12,064	25,519
Second quarter	22,754	41,620	3,335	12,289	25,996
Third quarter	21,376	39,756	3,377	11,678	24,701
Fourth quarter	20,238	37,018	3,432	10,781	22,805
Subtotal	86,958	160,101	14,268	46,812	99,021
Percent		100.00 %	8.91 %	29.24 %	61.85 %
TOTAL	269,718	5,498,119	5,039,466	228,728	229,925
PERCENT		100 %	91.66%	4.16%	4.18 %

See Independent Auditors' Report on Additional Information.

ANN ARBOR TRANSPORTATION AUTHORITY

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED SEPTEMBER 30, 2006

Federal Grantor/Pass Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass- Through Grantor's Number	Program or Award Amount	Current Year Expenditures
Transit Capital Grant Cluster - U.S. Department of Transportation - Federal Transit Administration: Federal Transit Capital and Operating Assistance Formula Grants (Section 5307):				
Capital, Planning and Operating Grant MI90-X380	20.507		3,988,000	1,180,608
Capital, Planning and Operating Grant MI90-X403	20.507		5,672,000	665,528
Capital, Planning and Operating Grant MI90-X428	20.507		2,184,000	19,262
Capital, Planning and Operating Grant MI90-X459	20.507		2,608,000	491,295
Capital, Planning and Operating Grant MI90-X490	20.507		2,176,000	452,771
Congestion Mitigation/Air Quality Grant MI90-X408	20.507		2,063,000	59,171
Congestion Mitigation/Air Quality Grant, Passed-Through Michigan Department of Transportation	20.507	2005-0091	42,800	<u>22,790</u>
Subtotal - CFDA 20.507				2,891,425
U.S. Department of Transportation - Federal Highway Administration: Surface Transportation Program Passed-Through Michigan Department of Transportation	20.205	2006-0380	142,000	19,040
U.S. Department of Transportation - Federal Transit Administration (Section 5309): Federal Transit Capital Grant MI03-0221	20.500		1,608,012	0
Public Transportation for Nonurbanized Areas - Passed-Through Michigan Department of Transportation Operating Assistance (Section 5311):	20.509	2002-0007/Z20		105,386
U.S. Department of Transportation - Federal Transit Administration (Section 5313(b)): Federal Transit Capital Grant MI08-X012/X014 Passed-Through Michigan Department of Transportation	20.515	2002-0007/Z16	16,800	16,800
Federal Transit Technical Studies Grant - Passed-Through Southeastern Michigan Council of Governments - Planning Grant (Section 5303) :	20.505	5005	49,440	<u>49,440</u>
Total Federal Expenditures of Federal Awards				<u>\$ 3,082,091</u>



REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

December 11, 2006

To the Members of the Board of Directors of
Ann Arbor Transportation Authority
Ann Arbor, Michigan

We have audited the basic financial statements of the Ann Arbor Transportation Authority (the "Authority") as of and for the years ended September 30, 2006 and 2005, and have issued our report thereon dated December 11, 2006. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted other matters involving the internal control over compliance, financial reporting and/or operating efficiency that we have reported to the management of the Authority in a separate letter dated December 11, 2006.

This report is intended solely for the information and use of the Finance and Audit Committee, management, the Board of Directors, others within the organization, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Hobson". The signature is written in a cursive, flowing style.



REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO A MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

December 11, 2006

To the Members of the Board of Directors of
Ann Arbor Transportation Authority
Ann Arbor, Michigan

Compliance

We have audited the compliance of the Ann Arbor Transportation Authority (the "Authority") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to its major federal program for the year ended September 30, 2006. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2006.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Finance and Audit Committee, management, the Board of Directors, others within the organization, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lobson". The signature is written in a cursive, flowing style.

ANN ARBOR TRANSPORTATION AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED SEPTEMBER 30, 2006

PART I – SUMMARY OF AUDITORS' RESULTS

1. The Independent auditors' report on the financial statements expressed an unqualified opinion.
2. There were no reportable conditions in internal control over financial reporting that were identified.
3. No instance of noncompliance considered material to the financial statements was disclosed by the audit.
4. There were no reportable conditions in internal control over compliance with requirements applicable to the major federal awards programs that were identified.
5. The independent auditors' report on compliance with requirements applicable to the major federal award program expressed an unqualified opinion.
6. The audit disclosed no findings required to be reported by OMB Circular A-133.
7. The Authority's major program is:

Name of Cluster	CFDA Number
Federal Transit Capital and Operating Assistance Grants	20.507

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The Organization did qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

PART II – FINANCIAL STATEMENT FINDINGS SECTION

No matters were reportable.

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COST SECTION

No matters were reportable.

ANN ARBOR TRANSPORTATION AUTHORITY

**OMB CIRCULAR A-133
CORRECTIVE ACTION PLAN
YEAR ENDED SEPTEMBER 30, 2006**

There are no reportable instances of noncompliance. Therefore, no corrective action plan is considered necessary.

A handwritten signature in dark ink, appearing to read "Christopher White", with a stylized, cursive script.

Christopher White
Manager of Service Development
Compliance Officer

December 11, 2006

ANN ARBOR TRANSPORTATION AUTHORITY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS YEAR ENDED SEPTEMBER 30, 2006

No reportable prior audit findings.



REHMANN ROBSON

Certified Public Accountants

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December 11, 2006

To the Members of the Board of Directors of the
Ann Arbor Transportation Authority
Ann Arbor, Michigan

We have audited the financial statements of Ann Arbor Transportation Authority for the year ended September 30, 2006, and have issued our report thereon dated December 11, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated November 18, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Ann Arbor Transportation Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Ann Arbor Transportation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Ann Arbor Transportation Authority's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Ann Arbor Transportation Authority's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Ann Arbor Transportation Authority's compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Ann Arbor Transportation Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Ann Arbor Transportation Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the liability for medical and life insurance benefits for eligible retirees are determined actuarially. We evaluated the qualifications of the actuaries and found them to be acceptable, and the actuarial report to be complete and consistent with prior years' calculations and within expectations.
- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Ann Arbor Transportation Authority's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Ann Arbor Transportation Authority, either individually or in the aggregate, indicate matters that could have a significant effect on the Ann Arbor Transportation Authority's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Ann Arbor Transportation Authority’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum is intended for the use of the Members of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Johnson", written in a cursive style.

Ann Arbor Transportation Authority

Comments and Recommendations

For the Year Ended September 30, 2006

During our audit we became aware of certain issues regarding internal control. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not affect our report dated December 11, 2006 on the financial statements of Ann Arbor Transportation Authority.

Internal Accounting Control Comments

The Accounts Receivable Clerk presently receives general cash and checks, prepares and makes the deposit, and enters the receipts into the general ledger system. In order to enhance internal controls in this area, we recommend that someone independent of the Accounts Receivable Clerk review the deposit slip against the daily receipt log.

The Controller is authorized to make investment transactions, as well as has access to the general ledger. In order to enhance the internal controls in this area, we recommend that the Investment account balances, including certificates of deposits, be reconciled to the general ledger by someone other than the controller on a monthly basis.

Investments

Included in the Authority's investment policy is a provision that calls for not more than \$4,000,000 to be invested in any one financial institution at any point in time. However, at September 30, 2006, the Authority had \$5,658,481 invested in one bank.

The Authority should reduce its investment in that institution in order to comply with the investment policy in place, or amend the policy to allow for greater parameters per institution.

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